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C O N F I D E N T I A L SECTION 01 OF 03 CAIRO 002532

SIPDIS

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TAGS: [PREL](#) [OREP](#) [EG](#)

SUBJECT: CODEL DREIER MARCH 23-25 VISIT TO CAIRO: PRIME  
MINISTER NAZIF REVIEWS REFORM EFFORTS

Classified by Charge Gordon Gray for reasons 1.4 (b) and (d).

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Summary  
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1. (C) In a March 24 meeting with Egyptian Prime Minister Nazif, CODEL Dreier (consisting of Representatives Dreier, Diaz-Balart, Alcee Hastings, Doc Hastings, Gingrey, and Crenshaw) discussed the potential for political and economic reform in Egypt, links between economic development and the fight against terrorism, and Egypt's appreciation for U.S. assistance. Nazif said U.S. aid was critical to helping Egypt ensure stability in a volatile region. The CODEL thanked Nazif for Egyptian training of Iraqi security personnel. Nazif also highlighted Egyptian contributions to peace between the Israelis and Palestinians, suggesting that "peace was possible" with U.S. support.

2. (C) Touting his cabinet as young, energetic, and development-oriented, Nazif said economic reforms in Egypt were taking hold but the economy needed time to turn around. In the meantime, many ongoing reforms put pressure on the budget, making U.S. assistance even more important. Nazif and the U.S. delegation agreed on the value of free trade, and Nazif noted a strong link between development and fighting terrorism. The Prime Minister also cited Egypt's long-term political reform efforts, appealing for continued U.S. support to bring more openness to the region. President Mubarak had opened the issue of constitutional change (potentially allowing multi-candidate elections) in spite of concerns about timing. This effort opened the door to more changes after the September presidential election, according to Nazif, who hoped that higher voter turnouts would enhance public participation in government. End summary.

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Bilateral and regional security cooperation  
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3. (C) Emphasizing Egyptian appreciation for U.S. assistance and the importance of the bilateral relationship, Prime Minister Nazif told CODEL Dreier that military assistance had paid off in terms of Egypt becoming a stabilizing force in the region. Egypt led the way to peace, he said, positing peace as necessary for growth and development.

4. (C) Congressman Dreier pointed out that political and economic openness was important to any nation and that political self-determination was key to development. He thanked Egypt for the important role it played in regional stability. The U.S. appreciated Egypt's support vis-a-vis Iraq, he said, especially the training that Egypt is providing to Iraq's security forces. Dreier said it would be easier for the U.S. to leave Iraq once more Iraqi security forces are in place; he highlighted Iraqi self-determination as the goal of U.S. policy.

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Peaceful resolution to the Israeli-Palestinian dispute  
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5. (C) Responding to a question about the real prospects for peace in the Middle East, Nazif stated that the main goal in the short term was a cessation of violence. The most important thing was calming both sides, he said. The second step would be developing credible leadership encompassing all Palestinian factions, including the refugees. The third step would be "getting Israel to come to the table." Peace could not be one sided. That is why, according to Nazif, Egypt sent back its Ambassador to Tel Aviv, signed the QIZ agreement, and invited PM Sharon to Sharm El Sheikh. Nazif said he believed Sharon wanted peace, but faced difficulties over the settlements. Achieving peace would be a long process, opined Nazif; however, with both sides engaged, and U.S. support, peace was possible. U.S. support was key in Nazif's view and the U.S. needed to change the perception that it was biased toward Israel.

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Economics, U.S. assistance, and terrorism  
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6. (C) Nazif said his cabinet was young, energetic, and

development-oriented. He pointed out that many reforms had been undertaken, such as the recent corporate tax cut (from 42 to 20%), tariff cuts last September, and cuts in sales taxes on capital goods. He noted that Egypt had a diversified economy, but that agriculture was still important, with most exports going to Europe. The U.S., however, was still Egypt's major trading partner.

17. (C) Nazif said that 18-20 months would be needed for Egypt's economy to really turn around. In the meantime, many of Egypt's ongoing reforms were causing difficulties in the budget, which made continued U.S. assistance more important. Nazif noted that reforms currently underway in the banking sector would cost \$10 million, for example, yet were necessary to overcome an excessively public banking sector. He lamented that there was not enough separation of the banking sector and the public companies, which has led to a significant problem with non-performing loans. He said that privatization was going forward as well as banking reform. He noted that the IMF, World Bank, and the EU were all helping with these reforms, but said that U.S. assistance remained critical. Reform could not happen without it.

18. (C) Dreier said that U.S. economic growth proved the value of a supply-side policy. Regarding an FTA, he said that he would carry Nazif's message of economic reform back to the U.S., as he would like to see an FTA negotiated with Egypt. Nazif replied that an FTA would also have important symbolic value. Trade with the U.S was increasing as was U.S. investment. Microsoft had opened a building in the Smart Village (Egypt's high tech business park) last year and would, under an agreement with the GOE, reinvest its profits back into the Egyptian economy. He raised Egypt's signing of the QIZ agreement with Israel and lowering of tariffs, and said he liked President Bush's idea of a Middle East Free Trade Area. Nazif cited a strong link between development and fighting terrorism, suggesting that most terrorists came from the lower classes. Dreier stated that some in the U.S. had said that with a GDP 1 percent higher in Pakistan and Afghanistan, Al Qaeda would never have developed. Nazif agreed and added that terrorism has to be fought from within, using education.

19. (C) Nazif noted that Egypt had been fighting terrorism long before 9/11. Egypt had been successful in rooting terrorism out of the fabric of society. He pointed to Egypt's hosting of the February 8 Sharm El Sheikh conference, the cessation of violence between the Israelis and Palestinians, and movement on the peace process after four years of stagnation. He noted Egypt's positive role in events in Lebanon and Syria, Sudan and Darfur (where he said Egypt is opening schools), and in overall regional stability and development.

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Political reform, constitutional changes  
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110. (C) According to Nazif, Egypt has also been leading the way on political reform for the last twenty years. In the 1970s there were only three political parties, now there are twenty. He said Egyptians enjoyed free speech and a media without censorship. The last parliamentary election was the best in Egypt's history, said Nazif, free and fair as certified by international observers. Egypt's next step will be multi-candidate presidential elections this year. Nazif said democracy is a time consuming process and Egypt lost time during years of war. The current government has a clear vision for political, economic, and social change, boasted Nazif, but Egypt needs continued U.S. support to realize the government's vision and help bring democracy to the Middle East (a "key factor" in the fight against terrorism).

111. (C) Nazif stated that Mubarak saw it was important to change the constitution before the upcoming presidential election, despite the views of many in the government that there was not enough time before the election to accomplish the change or field candidates. Mubarak wanted the election to be seen as legitimate and more democratic. Nazif stated that the constitutional change would take place in May, with elections next September. After the election, further constitutional reform could be contemplated. Nazif believed that multi-candidate elections would bring more voters to the polls. Congressman Hastings noted that there was higher turnout in the Iraqi elections than there was in the last U.S. presidential election. Nazif said low voter turnout leads to victories by organized minorities, pointing to the examples of syndicates in Egypt and Islamic groups which prevail when there is not broad participation.

112. (C) Nazif went on to say that constitutions should be a reference point and therefore should not change too often for fear of engendering chaos; the last change to Egypt's constitution was in 1980. The document would have to change somewhat, said Nazif, as it was still a socialist constitution and many of the reforms the current government

was making contradicted the charter. He believed that more substantive changes to the constitution would come after the elections in September.

¶13. (C) The Prime Minister said he would be visiting the U.S. in May and wanted to convey the message of reform in Egypt. The CODEL noted that Nazif's leadership was important. Members stated that the U.S. had provided much assistance to Egypt and would endeavor to continue to help, especially now that real reform appeared to be taking place.

¶14. (U) CODEL Dreier did not have an opportunity to clear this message before departing Egypt.

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GRAY